

# No place like home

*Governments take action to develop affordable housing*

BY LAURIE CLEWETT

Increasingly, many Americans find the dream of homeownership – or even decent, safe rental housing – out of reach. Across the country, more and more people are calling the lack of affordable housing a crisis, and there is growing momentum for action by all levels of government.

This is in spite of the fact that the nation's housing sector showed “remarkable resilience” in 2001, according to *The State of the Nation's Housing 2002*, a report issued in June by Harvard University's Joint Center for Housing Studies. Home sales and production, home-improvement spending and levels of homeownership all reached record levels last year.

“Although the United States is among the best-housed nations in the world, housing affordability continues to be a concern, particularly for lower-income households,” said Amy Bogdon, director of housing research at the Fannie Mae Foundation, in a recent online discussion. “One of the negative consequences of a robust economy over the past decade has been the rapid increase in housing prices and rents in many parts of the country, offsetting the benefits of rising incomes.”

Last May and June, the foundation surveyed 1,004 randomly selected adults nationwide to assess their views on affordable housing. Thirty-seven percent of respondents said the lack of affordable homes for low- and moderate-income working families is a very big or fairly big problem. Respondents ranked it as a bigger problem than unemployment, crime and pollution, putting affordable housing second only to affordable health care (43 percent) as a concern. Working



*Affordable housing initiatives on the state level are providing opportunities for potential homeowners.*

families themselves ranked affordable health care and housing about evenly (39 and 41 percent, respectively).

“The only comparable issue in the minds of most working Americans is affordable health care, which has emerged as a major public-policy matter over the past decade,” said Geoffrey Garin, president of Peter D. Hart Research Associates. Garin's firm helped conduct the survey. “This raises the potential that affordable housing will emerge as a dominant public-policy issue in the years ahead.”

Indeed, in some parts of the country, it already has. In Massachusetts, for example – where housing costs have skyrocketed in recent years – affordable housing has emerged as a key issue in the 2002 legislative session and gubernatorial race.

According to the Massachusetts Association of Realtors, the average sell-

ing price of a single-family home during the first quarter of this year was \$309,807. In Boston, it was \$441,060. “We are facing a serious affordable housing crisis here in Massachusetts,” said State Treasurer Shannon O'Brien.

Nationwide, the average selling price of an existing single-family home in 2001 was \$185,300, according to the National Association of Realtors. However, the average sales price varied considerably by region, with a high of \$243,500 in the West, \$190,500 in the Northeast, \$171,100 in the South and a low of \$152,200 in the Midwest.

These figures are consistent with the results of the Fannie Mae survey, which showed the affordability problem is most severe on the Pacific Coast and in the Northeast. Fifty-five percent of those surveyed on the Pacific Coast said affordable housing is a very or fairly big

problem, compared to 40 percent in the Northeast, 34 percent in the South and 29 percent in the Midwest.

Thus, even in the more affordable regions, about a third of respondents said housing costs are a major issue. Likewise, the problem is most acute in big cities (where 42 percent called it a very or fairly big problem), but is still significant in suburbs (38 percent) and small towns or rural areas (30 percent).

### **Calls for federal action, continued devolution**

In recent months, affordable housing has gained increased attention at the national level. For example, the U.S. Conference of Mayors released a set of recommendations this spring “to address the country’s affordable housing crisis.” The conference also endorsed the recommendations of The Millennial Housing Commission, a bipartisan congressional commission on affordable housing policy that issued its final report in May. The National Council of State Housing Agencies (NCSHA) also applauded the recommendations, which are available at [www.mhc.gov](http://www.mhc.gov).

“The report’s themes of deregulation and devolution of existing programs and creation of new tools to augment and leverage existing resources should resonate with Congress and lead to significant improvements in our national housing policy,” said Barbara J. Thompson, NCSHA executive director.

Since the mid-1970s, much federal housing policy has been devolved to state and local governments. States and cities are largely responsible for administering major federal programs such as the Home Investment Partnerships Program, the Community Development Block Grant, HOPE VI and the Low-Income Housing Tax Credit. The commission wants to reform these and other existing programs to increase state and local flexibility. It also proposed more tools for state and local governments to provide affordable housing, such as rental production programs, a state-administered homeownership tax credit, and tax credits designed to preserve the supply of affordable housing.

A second congressional commission recently reported on the specific housing



and health-care needs of seniors, which will become an increasingly important issue as the baby boomers age. The final report of the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century is available at [www.seniorscommission.gov](http://www.seniorscommission.gov).

Low-income seniors are especially vulnerable to high housing costs, even when they own their homes. “Fully 8.4 million [40 percent] of the nation’s 21 million elderly households fall into the lowest-income group,” according to *The State of the Nation’s Housing 2002*. “Overall, 1.8 million lowest-income homeowners – including 1.2 million that own their homes outright – pay more than 50 percent of their incomes for housing,” the report found.

### **State solutions**

In addition to administering federal programs, states can take a variety of other actions to help ease the housing crunch. Some measures are designed to subsidize or lower individuals’ housing costs or to help them buy homes. These programs provide financial assistance, and many also

include financial and homeownership counseling.

In Illinois, for example, State Treasurer Judy Baar Topinka announced details of the “Our Own Home” program in June. The statewide initiative is designed to help borrowers with poor credit or no credit obtain conventional mortgages, or to help people who have missed a couple of mortgage payments but have resumed making payments. The treasurer’s office pledges to give participating banks up to 10 percent of the home’s value if the borrower defaults on the loan.

“Banks take a greater risk in loaning money in these situations,” Topinka said, “but this new law provides financial institutions with an incentive to offer more reasonable loan rates and help people without putting themselves at unnecessary risk.”

The initiative, which was based on state legislation signed into law last August, is designed to give high-risk borrowers alternatives to using “predatory” lenders. According to the Harvard report, predatory lending – essentially financial institutions enticing people with no credit or poor credit histories into high-cost loans – is

an increasingly severe problem in the “sub-prime” lending market.

But high housing costs are not just a problem for poor people or those with bad credit. An increasing number of moderate-income people also have trouble finding homes or rental housing they can afford. In response, cities and states have started programs targeting certain public employees, including teachers, police officers and firefighters.

For example, Louisiana Treasurer John Kennedy, who is also chairman of the state Housing Finance Agency, announced a program in May to provide low-interest home loans to teachers. North Carolina has a similar Teacher Mortgage Program, administered by Treasurer Richard Moore’s office, which also offers down payment assistance. California, Connecticut and Mississippi have similar programs.

Aside from actions to help individuals, states can also take actions to increase the supply of affordable housing. Some common methods include offering developers tax credits or other incentives and issuing bonds. In November, the electorates in Maine and California will vote on housing bonds of \$10 million and \$2.1 billion, respectively.

In July, the Massachusetts Legislature approved a \$508 million housing bond bill. However, Acting Gov. Jane Swift vetoed the bill, which also changed the state’s “antisnob” zoning law, because she thought the changes would decrease the affordable housing supply. The debate is likely to continue when the Legislature convenes in January.

Another common initiative is to establish an affordable housing trust fund. According to Mary Brooks of the Center for Community Change, there are 38 state-level housing trust funds in 34 states. Brooks heads the center’s Housing Trust Fund Project, and is the author of *Housing Trust Fund Progress Report 2002: Local Responses to America’s Housing Needs*.

According to the report, the number of trust funds operated by city and county governments is also increasing. There are 142 city trust funds in New Jersey alone, and 42 city funds in 21 additional states. Forty counties in Pennsylvania, and 17 other counties nationwide, have afford-

able housing funds. The National Low Income Housing Coalition is spearheading a national campaign calling for a similar federal fund.

“Housing trust funds have quadrupled since 1990,” Brooks said. These funds are popular because they combine a dedicated source of money with local flexibility. State-level funds receive revenue from more than two dozen sources, including the following: real-estate transfer taxes, interest from real-estate escrow accounts, unclaimed property funds, deed-recording fees, bond and fee revenues, state income taxes, unclaimed lottery earnings and general funds.

“I was impressed with the breadth and the nature of housing needs that are being addressed through housing trust funds,” Brooks said in July, after her survey was released. State and local governments use them to finance a variety of standard affordable housing programs, such as grants, loans, rental assistance, homeownership programs or services for the homeless. The funds also finance programs for farm workers, people with very low incomes, and people with disabilities or special needs. Brooks said trust fund administrators are also beginning to address innovative issues such as sustainable development, transit-oriented development, and the relationship between housing and overall land-use policy.

Now that many states have trust funds, “I expect to see states taking a number of different steps to encourage and help local jurisdictions create their own trust funds,” Brooks predicted. Pennsylvania, Washington and Missouri have all passed legislation allowing cities, counties and/or towns to use document-recording fees to create affordable housing trust funds. New Jersey has allowed local jurisdictions to levy fees on developers since 1985, which have been used to fund 142 municipal trust funds throughout the state.

Trust funds nationwide provide at least \$750 million a year for affordable housing efforts. But according to Brooks, “the demand for the funds that exist in housing trust funds far exceeds what is available. The capacity and interest in addressing needs far exceed the resources we’re committing to them.”

However, not everyone agrees that

state or local governments should do more to address housing affordability. Housing costs have been an issue in New Hampshire’s race for governor, according to *Foster’s Daily Democrat*. Two candidates reportedly favor replacing the property tax with an income tax as the main source of school funding, in order to relieve the burden on homeowners. Another, however, believes that government regulation is partly to blame for high housing costs, and that the state can best help by “getting out of the way.”

Though people may disagree on the causes of and solutions to high housing costs, there is no doubt that in many parts of the country, affordable housing is already a prominent political issue. ★

— Laurie Clewett is a research analyst at *The Council of State Governments*.

## Resources

### **Information Clearinghouse:**

The Housing and Community Development Knowledgeplex at <http://www.knowledgeplex.org>.

### **State and Local Housing**

**Officials:** National Council of State Housing Agencies at <http://www.ncsha.org>; the Council of State Community Development Agencies at <http://www.coscda.org>; and the National Association of Housing and Redevelopment Officials at <http://www.nahro.org>.

**Federal Government:** U.S. Department of Housing and Urban Development at <http://www.hud.gov>.

**Research:** Fannie Mae Foundation at <http://www.fanniemae.foundation.org>; and the Joint Center for Housing Studies, Harvard University <http://www.jchs.harvard.edu>.

**Advocacy Groups:** National Low Income Housing Coalition at <http://www.nlihc.org>; and the Center for Community Change <http://www.communitychange.org>.